

August 8, 2002

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

State Budget Update

2003-04 State Budget Guidelines

Attached is a memo from the Director of Finance to State Departments setting forth the Governor's policy direction for the 2003-04 Budget. In summary, it states that it is virtually certain that the State will not be able to afford current commitments, that there will be no funds for new initiatives or program expansion, that workload increases or costs of legislation will have to be off-set by cuts in other areas and that departments will be required to make further reductions in state operations and local assistance. It seems to confirm that next year's State budget picture will be starker than this years, primarily because all available reserve funds, loan options and accounting changes will have already been used. The memo has been cited by Assembly Republicans as further proof that the spending plan under debate in the Assembly this week does not fix the State budget problem.

Assembly Budget Debate

Following their unsuccessful effort on Monday to pass a spending plan that did not include any tax increases, Assembly Democrats on Tuesday proposed to replace the temporary increase in the motor vehicle license fee in the Senate approved budget plan with a \$2.13 per pack increase in the cigarette tax. Both the Governor and Senator Burton indicated that the change would be acceptable. After a prolonged debate, SB 1849 was

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amended on a party line vote - 50 to 23 - to include the cigarette tax increase, as well as all the non-VLF tax increases in the Senate plan. On Wednesday, the Assembly replayed the debate from the day before and then failed to pass the bill on a party line vote - 50 to 20. The Assembly is scheduled to meet this morning and may take up the bill again. Rumors are that the Democrats have three of the four votes they need to pass the revised budget plan.

State Payment Delays

As a result of the budget delay, the State failed to transfer \$90 million in Highway User Tax funds to local governments that would have been paid on July 30. In addition, some payments to Medi-Cal providers may be at risk if the budget impasse is not resolved in August. According to the deputy director of medical care services for the State Department of Health Services (SDHS), the Department has sufficient funds to continue payments through the end of August. At that point, physician groups, doctors and dentists would continue to be paid as required by Federal law but payments to hospitals and nursing homes would be suspended until a new budget is signed into law.

We will continue to keep you advised of any new developments.

DEJ:GK
ML:JR:md

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 All Department Heads
 Legislative Strategist
 Local 660
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants